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INTERSTATE
DEPARTMENT STORES, INC.

NEW YORK, N. Y.

111 8th ave

ANNUAL REPORT

YEAR ENDING

JANUARY 31, 1935

DIRECTORS

PHILIP I. CARTHAGE

PAUL M. MAZUR

CHRISTIAN E. DAHLGREN

ALBERT PARKER

HENRY GESSNER

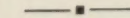
JOHN STILLMAN

DAVID LEVENTHAL

HAROLD J. SZOLD

WILL I LEVY

BENJAMIN VOLEN



OFFICERS

President HENRY GESSNER

Vice-President BENJAMIN VOLEN

Vice-President WILL I LEVY

Vice-President JOHN STILLMAN

Treasurer PHILIP I. CARTHAGE

Secretary ALBERT PARKER

Assistant Secretary FREDERICK CORD

APRIL 4, 1935.

TO THE STOCKHOLDERS OF
INTERSTATE DEPARTMENT STORES, INC.:

Submitted herewith are the Consolidated Financial Statements of the Company and its subsidiaries as of January 31, 1935 and for the fiscal year then ended, as certified by the Company's accountants, S. D. Leidesdorf & Co.

The consolidated net profit for this period was \$474,086.92 equivalent to 2.73 times the annual dividend requirement on the Preferred Stock outstanding at the end of the fiscal year and equivalent to net earnings of \$1.47 per share of Common Stock exclusive of those shares held in the company's treasury, after such dividend requirement on the Preferred Stock. The earnings of the Company in the preceding fiscal year were \$184,926.98. Sales in stores operated by subsidiary companies were \$23,585,655.96, an increase of \$2,274,821.47 or 10.67% above the sales of the preceding fiscal year. The gross margin ratio was slightly greater than that of the preceding year and there was a slight decrease in the store operating expense percentage; these factors coupled with the increase in sales volume, and despite the considerably higher taxes, resulted in an improvement of \$289,159.94 in the consolidated final net profit.

As shown by the accompanying Consolidated Balance Sheet, the Company continues in a satisfactory financial condition. While the current ratio of 3.75 to 1 on January 31, 1934 decreased to 3.58 to 1 on January 31, 1935, net working capital increased during the year by \$331,757.37, from \$2,955,161.34 to \$3,286,918.71; and cash at January 31, 1935 of \$1,613,579.87 was \$341,853.79 in excess of total current liabilities. The Company did not borrow any funds during the fiscal year. Year end inventories, including goods in transit were valued at \$2,588,368.33 as determined by the retail method of inventory, compared with \$2,481,084.36 at the close of the preceding fiscal year. An age analysis of total retail inventory in stores on January 31, 1935 showed that 90.51% was less than one year old, which is the best condition shown in the past several years.

On September 5th, 1934 an additional store was opened in Green Bay, Wisconsin, which showed a small profit up to the close of the fiscal year after charging off all expenses incident to its opening. The Management is continuously investigating the possibilities of opening additional units with a view to so doing in such cases as the situation may justify.

The Management has been making continuous efforts to reduce tenancy charges and has succeeded in doing so in a number of instances; some reductions have been secured for the remaining life of the leases, some reductions which were on a year to year basis have been extended for a definite period, and in some instances contemplated renewals of existing leases are being negotiated on the basis of present day rentals. Efforts are being continued, with the cooperation of landlords, to secure further reduction in these charges, which last year for rent, taxes, and insurance on real estate totalled \$1,039,989.70.

Since 1928, the store in Peoria, Illinois, has been occupied under a lease extending to 1948 from Mr. Leo G. Federman, former President of the Company, who was the owner and lessor of the property. During the past year the Management was able to negotiate the purchase of the property for the sum of \$450,000.00, payable \$50,000.00 in cash, \$100,000.00 in notes of a subsidiary which acquired title to the property, maturing quarterly over the next three years with interest at 4% per annum and endorsed by this Company and the balance by the assumption by the subsidiary which acquired title of an existing mortgage bond issue on the property of \$300,000.00 extending to 1949. The purchase price of \$450,000.00 plus all interest due on the obligations is less than the original liability of this Company for the unexpired term of the lease and represents an average annual saving in tenancy expense in excess of \$20,000.00.

On February 1st, 1934 a dividend payment of \$1.75 a share was made to Preferred Stockholders, and during the period since then regular quarterly dividend payments of \$1.75 per share have been made on the Preferred Stock of the Company. On February 1st, 1935 a payment of \$1.75 a share was made to Preferred Stockholders on account of dividends then in arrears, and on March 19th, 1935, another such equal amount, in addition to the regular quarterly dividend, was declared payable on May 1st, 1935 to preferred stockholders of record of March 30th, 1935. Undeclared dividends in arrears on the outstanding Preferred Stock now amount to \$1.75 per share.

The plan for additional compensation of Management submitted to the Stockholders at their annual meeting last year was approved, and has since been in effect, although no payments will be made thereunder until all present arrears of preferred dividends have been declared and paid. The cost to the Company under the plan and the earlier contract with Lehman Brothers has been reduced by waiver on the part of Lehman Brothers of one-half of the additional compensation payable to that firm in respect to the fiscal years ending January 31, 1935 and January 31, 1936.

The Management is pleased to credit the co-operative efforts of the personnel in all of the Company's units for the increase in the Company's profits.

The Annual Meeting of Stockholders will be held at the office of the Company at 111 Eighth Avenue, New York, N. Y., on the 25th day of April, 1935, at 2 o'clock P. M., notice of which is enclosed.

The Management earnestly requests the presence of all stockholders who can conveniently attend this meeting. If your attendance is not possible, it is urged that the enclosed proxy be signed and forwarded as promptly as possible.

Very truly yours,

HENRY GESSNER, *President.*

INTERSTATE DEPARTMENT

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS:

Cash on hand and in banks			\$1,613,579.87
Cash with trustee for payment of first mortgage 5% gold bonds—series A.....			18,491.60
Accounts receivable—trade	\$317,020.11		
Less: Reserves	33,294.24	\$ 283,725.87	
Due from leased departments, vendors, etc.	64,337.44		
Less: Reserves	9,858.32	54,479.12	338,204.99
Merchandise inventories—certified by the management as to quantities and marketable condition and as to valuation at the lower of cost or market		2,459,100.44	
Merchandise in transit		129,267.89	2,588,368.33
Total current assets			\$4,558,644.79

OTHER ASSETS:

Deposits in closed banks, less reserve of \$44,460.32.....		10,713.73	
Notes receivable		2,204.20	
Advances to employees		1,942.48	
Miscellaneous other assets including rent deposits, unemployment insurance fund, investments, etc.		28,909.14	43,769.55

FIXED ASSETS—AT COST:

Land and buildings	\$ 750,000.00		
Less: Reserve for depreciation	38,307.63	711,692.37	
Leaseholds	247,897.12		
Less: Reserve for amortization	77,529.87	170,367.25	
Alterations and improvements to leased premises...	513,340.37		
Less: Reserve for depreciation	242,428.54	270,911.83	
Furniture and Fixtures	1,357,984.78		
Less: Reserve for depreciation	813,097.02	544,887.76	
Delivery equipment	3,716.43		
Less: Reserve for depreciation	1,368.53	2,347.90	1,700,207.11

DEFERRED CHARGES:

Prepaid expenses, unexpired insurance, etc.....		96,503.57	
Supplies		47,692.05	
Pre-opening expense		2,356.96	146,552.58
			<u>\$6,449,174.03</u>

* Of the shares reacquired, 20,000 shares are reserved under compensation agreements approved at stockholders' meeting on April 2, 1930.

Undeclared Cumulative dividends in arrears on the preferred stock amount to \$80,000.

MENT STORES, INC.

RY COMPANIES

HEET AS AT JANUARY 31, 1935

LIABILITIES

CURRENT LIABILITIES:

Accounts payable—trade	\$ 715,766.85
Accounts payable for merchandise in transit.....	129,267.89
Accrued salaries and expenses	109,164.91
Accrued Federal, state and other taxes	204,514.09
Sundry creditors and accruals	40,426.16
Current installments of notes payable on real estate and accrued interest	51,336.18
Current installment of first mortgage 5% gold bonds, series A, and accrued interest.....	21,250.00

Total current liabilities	\$1,271,726.08
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Notes payable on real estate—due quarterly to December 31, 1937.....	\$ 113,491.60	
Less: Current installments included above.....	48,491.60	65,000.00
First mortgage 5% gold bonds, series A, due annually to March 1, 1949....	300,000.00	
Less: Current installment included above.....	15,000.00	285,000.00

Total liabilities	\$1,621,726.08
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Accrued additional compensation—payable in common stock	15,800.00
Minority interest in subsidiary company.....	5,757.31

Capital stock:

Preferred stock, 7% cumulative—par value \$100.00
per share:

Authorized and issued, 26,500 shares.....	\$2,650,000.00	
Less: Held in treasury for retirement, 1,700 shares	170,000.00	
Outstanding, 24,800 shares	2,480,000.00	

Common stock, no par value:

Authorized, 240,000 shares		
Issued 233,602 shares (stated value \$5.00 per share)	1,168,010.00	
Less: 30,000 shares reacquired*	150,000.00	
Outstanding, 203,602 shares	1,018,010.00	

Surplus, per Statement No. 2	1,307,880.64	4,805,890.64
		<u>\$6,449,174.03</u>

25, 1934, and 10,000 shares are reserved for sale at \$10.00 per share under option approved at stockholders' meeting on April 25, 1933.

5,800.00—or \$3.50 per share on the 24,800 shares outstanding as at January 31, 1935.

INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SURPLUS

AS AT JANUARY 31, 1935

BALANCE, February 1, 1934.....	\$1,021,170.25
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ADD:

Adjustment of depreciation taken on furniture and fixtures in prior years	2,989.38
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Refund of Federal income taxes for prior years.....	26,634.09
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Net Profit for the year ended January 31, 1935—per Statement No. 3.....	474,086.92
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	\$1,524,880.64
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LESS:

Dividends paid on preferred stock—five quarterly dividends	217,000.00
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BALANCE—January 31, 1935 (capital surplus remaining after deduction of prior years' operating deficit)—Statement No. 1	\$1,307,880.64
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INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

YEAR ENDED JANUARY 31, 1935

NET SALES:		
Owned departments	\$20,051,045.67	
Leased departments	3,534,610.29	\$23,585,655.96
COST OF GOODS SOLD, SELLING, OPERATING AND ADMINISTRATIVE EXPENSES, exclusive of depreciation		
		22,847,198.84
		\$ 738,457.12
LESS:		
Depreciation on buildings, leaseholds, and fixtures		189,764.95
		\$ 548,692.17
OTHER INCOME:		
Interest and other non-trading income		26,275.30
		\$ 574,967.47
PROPORTION OF LOSS OF A SUBSIDIARY COMPANY APPLICABLE TO ITS MINORITY INTEREST.....		215.01
NET PROFIT BEFORE PROVISION FOR FEDERAL INCOME TAX		575,182.48
PROVISION FOR FEDERAL INCOME TAX.....		101,095.56
NET PROFIT—Statement No. 2.....		<u>\$474,086.92</u>

S. D. LEIDESDORF & CO.,
Certified Public Accountants,
 125 PARK AVENUE,
 NEW YORK, N. Y.

APRIL 1, 1935.

TO THE BOARD OF DIRECTORS,
 INTERSTATE DEPARTMENT STORES, INC.:

We have made an examination of the consolidated balance sheet of Interstate Department Stores, Inc., and subsidiary companies as at January 31, 1935, and of the consolidated statements of surplus and profit and loss for the year ended January 31, 1935. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related consolidated statements of surplus and profit and loss, subject to the comments thereon, fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, their consolidated financial position at January 31, 1935, and the consolidated results of their operations for the year then ended.

S. D. LEIDESDORF & Co.

This report is solely for statistical information for stockholders, and is not a representation, prospectus or circular in respect of any stock of any corporation, and is not transmitted in connection with any sale or offer to sell or buy any stock or security now or hereafter to be issued, or with any preliminary negotiation for such sale.

